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GENERAL

1. Further concessions to Philippines on Japanese reparations rejected by US:

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Mr. John Foster Dulles has informed Ambassador Cowen in Manila that the US has gone as far as is possible to meet the Philippine demands for revision of the Japanese peace treaty. Pointing out that five years of occupation experience had firmly convinced the US that Japan could not pay reparations, Dulles states it was with great reluctance that the

US altered its position on reparations to ease the position of the Philippine Government. He believes that that government is gravely at fault in not having informed its public of the very considerable efforts made by the US to accommodate Philippine demands.

Cowen subsequently informed Dulles that after an unsatisfactory meeting with Foreign Secretary Romulo and President Quirino's advisory committee on reparations at which Dulles' views were presented, Romulo stated that Quirino was obdurate in his refusal to sign the treaty in its present form.

2. Pacific Pact issue may be revived by Philippines:

An emissary of President Quirino has informed the US State Department that the Philippine Government is seriously considering again proposing a Pacific Pact. The intermediary

said that President Sukarno of Indonesia had reacted favorably to the idea during his recent visit to Manila and believes that Nehru could be persuaded to participate in the proposed pact. The emissary revealed that Quirino had dispatched unofficial emissaries to Indonesia, Burma and Thailand to discuss the matter and had received favorable responses.

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Comment: At President Quirino's invitation, representatives from most South and Southeast Asian countries met at Baguio in the Philippines a year ago to discuss the possibility of a Pacific Pact. The only tangible results were agreements to consult with each other on matters of mutual interest and to develop closer economic and cultural relations.

India is interested in developing regional pacts in Asia, but its whole-hearted participation will be obtained only if it is assured a preeminent position. Pakistan, while concerned over regional security, recently has been promoting a Near Eastern Moslem alliance. Indonesia, Burma and Thailand would be receptive to a pact proposal, while Japan, when eligible, would be anxious to sign one.

3. German support of Allied stand in Berlin trade crisis seen weakening:

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US officials in Berlin cite evidence of weakening local German support of the Allied position in the current Soviet restrictions which have resulted in a choking off of much of West Berlin's export trade. Certain large firms and many smaller firms in West Berlin, hard hit by the restrictions, have been ignoring West German and Allied directives and complying with Soviet demands.

The French Commandant in Berlin feels that the West Berliners will not support the Allied position and that no one has been able to indicate what the Allies will do if West Berlin trade is stopped and Allied countermeasures, including the proposed move to hold up implementation of the new interzonal trade pact between East and West Germany, fail to cause the USSR to back down. He adds that the USSR could afford one or two years delay in the East German Five Year Plan if its objective to force the Allies out of Berlin is achieved.

Comment: The dragging out of the current Soviet restrictions appears to have succeeded in further dividing the Allies and West Berliners on this issue. Shortly after initiating the restrictions, the Soviet authorities encouraged West Berlin firms to by-pass Allied

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offices and deal directly with Soviet authorities. This is the first concrete evidence that large numbers of firms have felt the squeeze sufficiently to follow this course.

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4. Comment on British seizure of Polish tankers:

The requisitioning by the UK of two Polish government-owned tankers nearing completion in British shipyards, "under defense regulations," was an action taken most reluctantly, and only after vigorous US protests that the vessels might be used to ship petroleum to Communist China. The UK feared Polish retaliation, and insisted at first that there was no satisfactory legal basis for the seizure. Two weeks ago Foreign Secretary Morrison promised to reconsider the matter in light of the Iranian oil crisis.

FAR EAST

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5. South Korean Prime Minister suggests that President Truman reassure Korean people:

In a conversation with Ambassador Muccio summarizing the attitude of the South Korean people, the ROK Prime Minister stated that it was not enough for the US to reiterate its exemplary past record; Korean worries stemmed from its intentions in the future. He said that the Korean people believe the US is "calling the whole thing off with victory within its grasp," and that they are particularly worried over the concessions which will have to be made in order to obtain a cease-fire and political agreement.

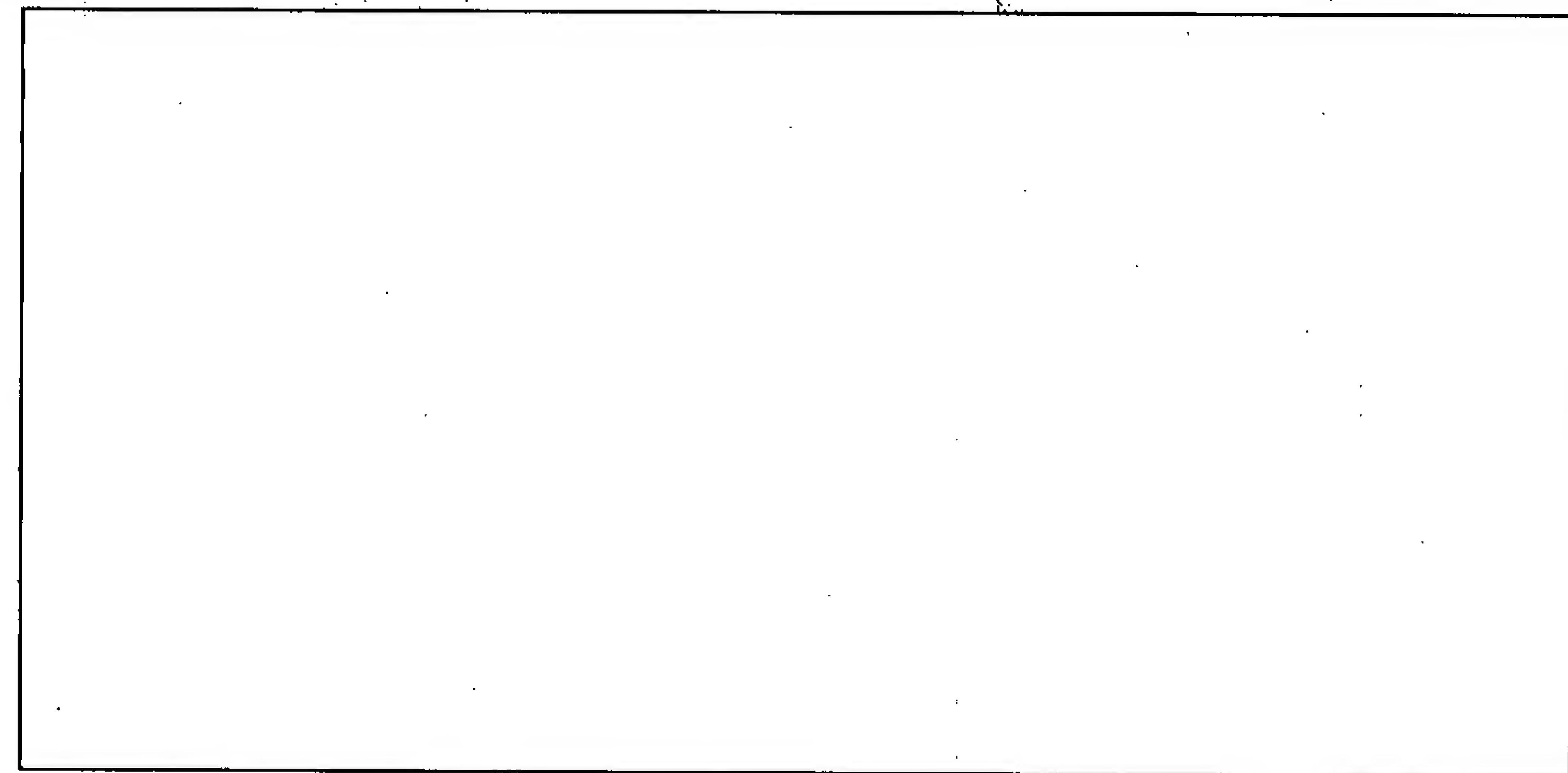
The Prime Minister stated that his people, regardless of the past record, simply do not believe that the US continues to have Korean interests at heart, and furthermore believe that for reasons of global strategy the US now plans to abandon the Republic of Korea. He feels that the situation is deteriorating and suggests that a statement of

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reassurance from a high US official, preferably the President, meeting these Korean suspicions head-on, would have a salutary effect. Ambassador Muccio believes the suggestion merits consideration.

Comment: Despite the plausibility of the Prime Minister's analysis of the South Korean situation, there is evidence that the government itself, through inspired demonstrations and press agitation, is largely responsible for the current feeling. There is little indication that continued remonstrances by US officials have had any appreciable effect upon President Rhee, whose actions continue to be irresponsible and unpredictable.

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7. Burmese Commander-in-Chief and Socialists in conflict:

Serious friction and general deterioration within the Burmese Army are reported by the US Embassy in Rangoon. These developments

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are the result of mounting tension between the Burmese Commander-in-Chief, Ne Win, and leaders of the Socialist Party, which controls the government. The situation is rapidly reaching a point at which Ne Win must retire (he is reported as contemplating a trip to London) or force a showdown for power with the Socialists large private army. With regard to future developments, the Embassy is concerned over the fact that Ne Win this week conferred with the Chinese Communist Ambassador for over an hour.

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Comment:

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A clash between the Socialists' irregular forces and Army elements loyal to Ne Win could have grave consequences, particularly at a time when Chinese Communist aid to the Burmese Communists is increasing.

Although Ne Win has been considered anti-Communist, he is completely opportunistic and might seek Communist support to maintain his position.

NEAR EAST-AFRICA

8. Iranian Prime Minister retains control of government despite rising opposition:

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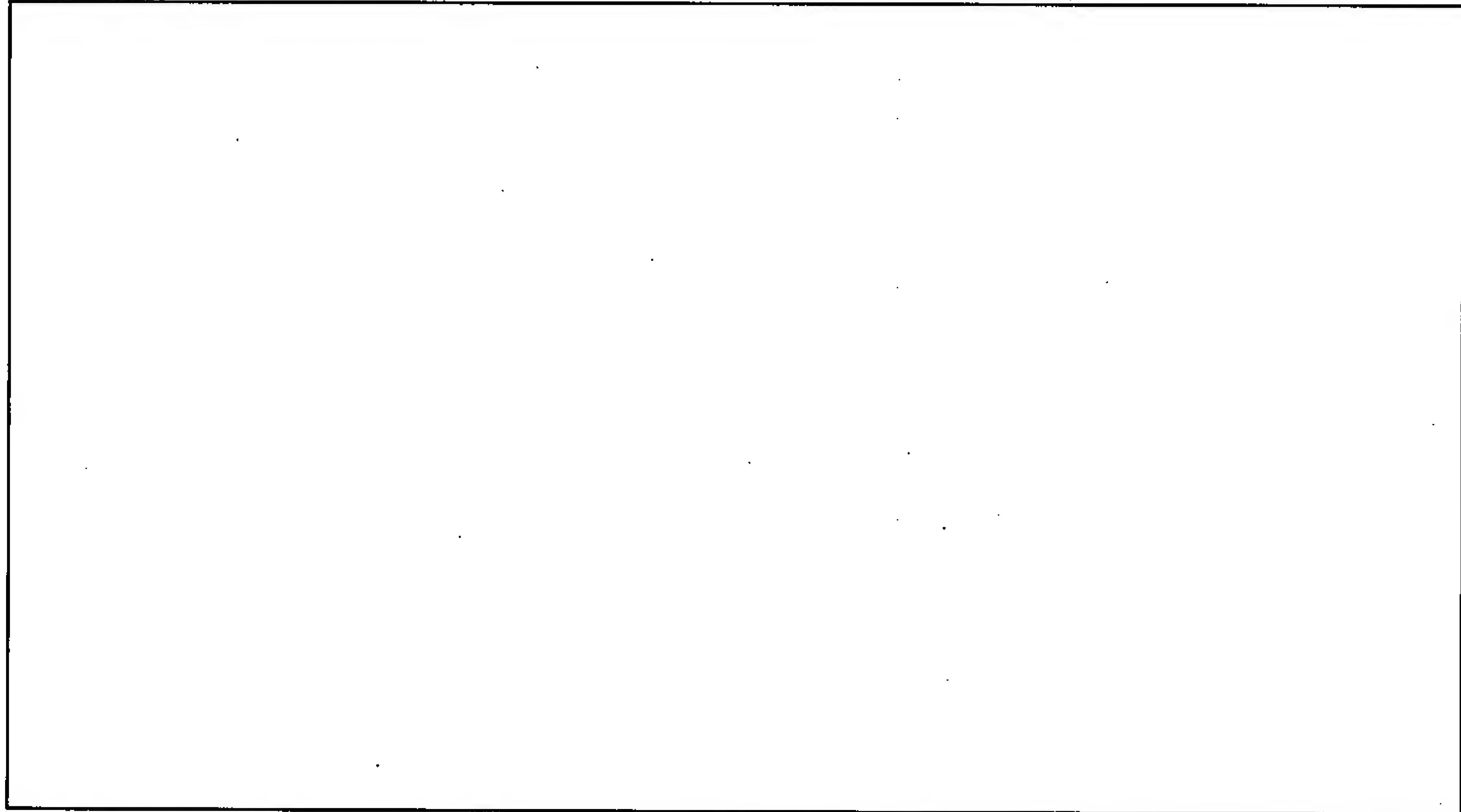
The US Embassy in Tehran has received information from several sources that the Iranian Government may have been considerably weakened by developments in the past two weeks. Parliament is becoming restive as a result of its realization that the situation has worsened steadily. The cabinet is dissatisfied with the Prime Minister's habit of making decisions without consulting it. The press has also developed a more critical attitude on the handling of the oil issue. The Prime Minister, meanwhile, has announced that a group of physicians will check his physical condition. This has resulted in a spate of rumors on his resignation and a possible successor.

The US Ambassador, while recognizing all these factors as indicative of a certain weakness in the present government, concludes that Prime Minister Mossadeq still has very strong popular

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Support and that no group in Iran has shown a willingness to assume responsibility for any modification of the oil nationalization which is the basis of the Prime Minister's power. The Ambassador believes that for the present Mossadeq can continue in power.

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25X1A¹⁰. Communists linked to conspiracy to overthrow Ethiopian Government:

The USSR has been definitely linked to the recently uncovered conspiracy which aimed at overthrowing the Ethiopian Government and establishing a "republic." Total arrests

as of 11 July are 43, including two interpreters at the local Russian institute and several other Ethiopian Communist sympathizers. Ethiopian

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officials have linked the USSR to the mutiny in early July of sixty members of the Imperial Body Guard Cadet School. The local Communist-controlled Youth League is also involved. Ramifications of the plot are still under investigation and more arrests are expected.

Comment: [redacted]

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[redacted] The Ethiopian Government, resolutely anti-Communist, may be expected to take appropriate action against any of its own subjects involved in conspiracy. It will also express itself strongly to the USSR, whose activities in Ethiopia may be sharply curtailed.

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